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ABSTRACT

Implementing pay-for-performance salary structures has been used successfully in business and can result in benefits for educational systems when implemented along with other compensation reforms. Business leaders can help in the implementation of teacher pay-for-performance systems in the following ways: (1) ensure that pay-for-performance plans are developed in conjunction with, rather than for, teachers; (2) emphasize the importance of using multiple, credible, and objective measures of teacher skills and student progress; (3) encourage school leaders to establish a clear system of rewards that are at least 5 to 10 percent of base salary, delivered within one year, and recognized as additional pay, not pay taken from some teachers and given to others; (4) help school leaders plan for increased costs and administrative responsibilities; (5) advise school leaders on the possible use of consultants to help implement the new system; (6) point out the importance of aligning pay-for-performance plans with overall school goals; and (7) encourage school leaders to consider pay-for-performance in conjunction with comprehensive reforms of teacher compensation as well as other organizational changes to improve teaching. Compensation systems send signals to employees about what an organization values. The current system signals that longevity and graduate credits are what schools value. There is a need for a new, much more flexible compensation system for teachers. Where credible indicators of student progress are available, pay-for-performance can contribute to this new system by rewarding teachers for student results. (Contains 11 references.) (KC)

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Pay-For-Performance In Education

An Issue Brief for Business Leaders

> "We will develop competitive salary structures to attract and retain the best-qualified teachers and school leaders, with differentiated responsibilities and pay for teacher leaders, and pay for both skills and performance...Business leaders will help interested school systems and teacher organizations in at least 10 states incorporate pay-for-performance incentive plans into their salary structures, based on lessons learned in the private sector."
>
> — from the 1999 National Education Summit Action Statement

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THE BUSINESS ROUNDTABLE

NATIONAL ALLIANCE OF BUSINESS

At the Third National Education Summit in 1999, the nation's leading business leaders, governors, and educators committed to improving teacher quality as part of a series of reforms necessary to enable all students to meet high academic standards. As part of this commitment, business leaders were charged with helping interested school systems develop ways of compensating teachers that reward increased student achievement. One such approach is "pay-for-performance."

Used widely in the private sector, pay-for-performance is a strategic compensation system that ties financial and other rewards to increased performance. Many features of the current teacher compensation system are outdated and inadequate, and pay-for-performance can help heighten the focus on improving student achievement. An aligned system of standards, assessments, and accountability is essential to the effectiveness of our schools. Pay-for-performance can be an effective element of an aligned system.

This issue brief, developed by The Business Roundtable and National Alliance of Business, represents an initial response to the commitment business made in 1999. It provides an overview for business leaders describing how pay-for-performance salary structures can reward teachers for improving student achievement. The brief also suggests ways that business leaders, working collaboratively with educators and policymakers, can support the development of new teacher compensation systems that include pay-for-performance.

Introduction

A growing body of research suggests that teaching is the most important factor in increasing student achievement. In a standards-based system where all students are expected to reach high levels of achievement, teachers are being asked to do more than ever before. Mastery over academic material and the ability to help students with different needs meet rigorous new standards are essential. Teachers must also adopt new technologies and take on expanded roles and responsibilities.

As a result, many educators and policymakers are considering ways to improve virtually every aspect of how we recruit, train, license, and reward teachers, including alternative compensation systems such as pay-for-performance. When implemented within the context of other reforms that support quality teaching, pay-for-performance can be a valuable tool for teacher recruitment and retention, improving teachers' abilities, and — most importantly — increasing student achievement.

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Pay-for-Performance

The benefits of pay-for-performance are well-known in the private sector, where compensation is frequently used as a management tool to achieve organizational goals. As part of a total compensation strategy, pay-for-performance is used in the private sector to reward individuals, groups and/or organizational performance in the form of bonuses and increased compensation for results. The vast majority of large US companies now use some form of performance-based pay with at least some portion of their employees — an increase of 50 percent since 1987, according to Ohio State University's Robert Heneman. And research suggests that roughly two out of three such efforts result in increased productivity or other measurable improvements.

Although still controversial in the public sector, many teachers and policymakers are starting to explore ways to reward teachers for increased student achievement. In education, the term "pay-for-performance" usually refers to salary structures that tie financial rewards to student achievement. Some educators and policymakers also refer to systems that reward teachers for increased skills and knowledge as pay-for-performance, on the assumption that teachers' skills and abilities are directly related to increasing student achievement.

Pay-for-performance plans may focus on individual and/or group performance. School-based pay-for performance plans provide rewards for increased student achievement to groups of teachers. Other plans reward the accomplishments of individual teachers, or include a mix of both group and individual incentives and rewards.

DENVER: Rewarding Individual Teachers' Performance

In the fall of 1999, teachers in Denver voted in support of a four-year pilot program that will evaluate how pay-for-performance helps improve student achievement. This is one of just two existing pay-for-performance programs measuring individual teachers' effects on student achievement as part of determining individual financial incentives. During the first two years, roughly 450 teachers at 15 schools will participate and could receive up to $1,500 in bonuses. Using a $1 million grant, this pilot program will compare three different ways of measuring teacher performance: increases in student performance on standardized tests, increases in student performance on teacher-developed assessments, and increases in teachers' skills and knowledge. In order to participate, 85 percent of teachers in a school must vote in favor of the plan. The first set of awards is scheduled for distribution in July 2000.

CINCINNATI: A Skills- and Knowledge-Based Model

Though it does not measure student achievement as part of its rewards system, Cincinnati's compensation system is looked to by many as a model for skills- and knowledge-based performance pay. Teachers and administrators in Cincinnati are developing and piloting a skill-based compensation program that would reward teachers who meet agreed-upon standards of practice and/or take on additional responsibilities with as much as $1,400 in additional compensation. Proposed in the fall of 1999, the Cincinnati plan will be piloted at 10 schools once uniform measures of skill and knowledge are developed. In addition, teachers certified by the National Board for Professional Teaching Standards receive a $3,500 bonus under the Cincinnati system.

In all of its various forms, pay-for-performance contrasts starkly with the most common teacher compensation system that is in place today. For over 50 years, teacher compensation has been based largely on a teacher's length of service, participation in certain professional development activities, and graduate credits earned. This "single salary schedule" was developed in response to concerns about gender equity and it established a system of incremental steps for advancement as a means to assure that equal pay was provided for equal work.

The disadvantages of the single salary schedule have become increasingly clear in recent years. Public school teachers remain underpaid in comparison to other college-educated professionals, and the traditional single salary schedule provides few incentives for teachers to take on added responsibilities or learn new skills, limited advancement opportunities for classroom teachers, and no rewards for increases in student achievement. The single salary schedule fails to accommodate marketplace realities and has contributed to shortages of qualified teachers in poor communities and high-priority specialties such as math and science. Finally, professional development and graduate credits that advance teachers in the current system are infrequently linked to actual teacher, district, school, or student needs.

Growing Interest in Pay-for-Performance

While many educators remain reluctant to abandon the single salary schedule, a small but growing number of teachers and policymakers have shown interest in adapting performance-based incentives to an educational setting. Reform-minded union leaders in several districts around the nation, including Cincinnati, Columbus, Denver, Memphis, Miami/Dade and New York City, have been experimenting with different forms of pay-for-performance. Three years ago, University of Wisconsin-Madison professor Allan Odden published a widely-read book, *Paying Teachers for What They Know and Can Do*. At the Third National Education Summit in 1999, some of the nation's leading governors, CEOs, and educators, including the presidents of the two major teacher unions, took a strong position in support of further efforts to implement alternative compensation in our nation's schools. There are more than 12 states and numerous districts where teachers are given bonuses or salary increases for meeting or exceeding academic objectives. An April 2000 report on state reform efforts from Achieve, Inc. highlighted a number of state-level pay-for-performance initiatives that are underway.

A growing number of states and districts are also experimenting with other compensation incentives. For example, the state of **Massachusetts** recently announced that it would give $20,000 signing bonuses to teachers in high-need areas. **Baltimore, Maryland**, offers $5,000 in housing bonuses to new teachers willing to work in "hard-to-staff" areas of the district.

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NORTH CAROLINA: A Mixed Skills- and Achievement-Based Program

North Carolina combines both skill- and performance-based incentives for teachers and schools. To encourage individual mastery of skills and knowledge, teachers who receive certification from the National Board for Professional Teaching Standards receive a salary increase equal to roughly 12 percent of their total salary. To reward groups of teachers for fostering higher student achievement, teachers at schools where students meet academic objectives receive financial rewards. Faculty members in schools that meet their state-established student performance goals receive $750 each through an incentive-reward program. Faculty members in buildings that exceed their student performance goals by 10 percent or more receive $1,500 each. Originally budgeted at $75 million, North Carolina's program was increased to $125 million in its second year.

And almost 40 states and at least 165 local districts now offer cash subsidies and incentives for teachers who become "nationally" certified through the **National Board for Professional Teaching Standards**. In **Dade County, Florida**, teachers with National Board certification are given a 20 percent increase in salary from the state, as well as up to $5,000 in bonuses from the school district. The **Milken Family Foundation** is working with a number of states and districts to develop differentiated salary structures that could allow some teachers to make as much as $100,000 per year. Under the Milken *Teacher Advancement Program (TAP)* model, roles and responsibilities, as well as performance, determine salaries.

Making It Work

In both the private and public sectors, even the most successful pay-for-performance plans face common challenges. Research shows that, in order to be effective, a pay-for-performance plan must appear to be both fair and achievable through the efforts of those eligible for the reward. And, in order to reward accomplishments that are critical to the organization, it must also be closely aligned with organizational priorities and other reforms.

In a school setting, addressing teachers' reluctance to abandon the familiar single salary schedule is perhaps the single most important challenge. Past compensation reform efforts such as "merit pay" and the career ladder plans of the 1980s lost support because they were highly subjective, discouraged collaboration among teachers, and often failed to deliver on promised rewards. Fearing isolation and competitiveness, and remembering flaws in past attempts at tying teacher pay to student achievement, many teachers today object to incentive plans that reward teachers based on individual classroom results. There also remains widespread concern among educators about using current tests as the only metric of student learning — especially given the imperfections in some measures and the many out-of-school factors that affect student achievement.

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From both the private sector and the more recent school district and state reforms, experience and research show that developing an effective new compensation program requires (1) close collaboration with teachers and administrators, (2) careful development of objective measures of achievement, (3) clear links between rewards and achievement, (4) attention to the need for ongoing development and support, and (5) strong alignment with organizational goals and structures.

1. Collaborate From the Start.
Successful pay-for-performance proposals ensure that teachers, administrators, elected officials, and union representatives participate in the development of the plan from the very beginning. Teacher compensation is generally determined through agreements between unions and local school districts, often through collective bargaining. However, states play an increasingly important role in providing incentives, establishing standard hiring procedures, and setting minimum certification requirements. Early collaboration helps ensure that pay-for-performance plans address teachers' concerns and reflect widely agreed-upon priorities and achievement measures.

DOUGLAS COUNTY, CO: A Collaborative Model

One of the most well-established pay-for-performance models in the nation is located in a fast-growing community outside of Denver, Colorado. Begun in 1993 through a lengthy collaborative process, this program incorporated a new system of base pay and voluntary bonus incentives that include rewards based on individual teachers' impact on student achievement. The Douglas County program provides up to $3,000 in bonuses to teachers for outstanding efforts, additional duties, and group accomplishments. Teachers can apply for a $1,000 bonus as an outstanding teacher, up to $750 for additional site responsibilities, up to $1,600 for additional district responsibilities, and additional funds for school-based accomplishments.

To help ensure buy-in at all levels for a pay-for-performance plan, business leaders should insist that plans are developed in conjunction with, rather than for, teachers. Business leaders should point out that in business, effective compensation plans are developed in partnership with employees.

2. Insist on the Use of a Variety of Objective Measures to Determine Rewards.
Perhaps the most important feature of any pay-for-performance plan is what measures it uses to determine which schools, teams, or individual teachers are rewarded. Past efforts to develop strategic compensation systems have been doomed by measures that were perceived as vague, arbitrary, or narrow. Successful pay-for-performance programs often take extraordinary steps to ensure that the measures they use are directly connected to improved student achievement.

Using private sector experience, business leaders can help emphasize the importance of using multiple, credible and objective measures of teacher skills and student progress. In business settings, measures linked to compensation are selected with great care, and in many situations are created specifically for use in a pay-for-performance program.

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LOS ANGELES: Controversy Surrounding Use of Test Scores

In Los Angeles, the interim superintendent proposed as much as $5,000 in bonuses for teachers in roughly 300 of the district's low-income schools. Under this proposal, both individuals and entire schools would be eligible for performance bonuses based on students' standardized test scores. Teachers could also earn $2,000 in additional pay if they master specialized skills. While bonuses and loan forgiveness for National Board certification have been adopted, union leaders, many of whom feel that they were not adequately consulted, have strongly objected to the performance bonuses. They now point to the effects of out-of-school factors and student mobility rates on student test scores in criticizing the plan.

3. Establish a Clear, Flexible System of Tangible Rewards.

Research on private sector plans shows that a strong, readily apparent connection between the reward and the individual's effort is essential to motivating changes in behavior. The "line of sight" between the reward and the desired accomplishment must be clear.

The size of the reward and the timeframe in which it is attainable also play an important role in motivating change. Researchers recommend significant incentives (in the range of five to ten percent of base salary), as well as the development of a range of different reward levels for those who meet, exceed, or just make partial progress towards established goals. Successful pay-for-performance plans also enable participants to earn a reward in a relatively short period of time.

Business leaders can assist school leaders by encouraging them to establish a clear system of rewards that are at least five to ten percent of base salary, delivered within one year, and determined by clear, measurable objectives.

COLONIAL, PA: A Mix of Individual and Group Rewards

In this suburban Philadelphia school district, teachers will be able to receive both individual and school rewards for increased student achievement, starting in December 2000. Teachers could receive up to $3,000 based on their individual performance, along with group incentives that could range from as little as $300 to as much as $5,000 per teacher. Each of these incentive plans is funded at $100,000 for the first year. Roughly $275,000 in startup costs for this new program over the first two years was covered by a state grant of $300,000. The district superintendent estimates that ongoing administrative costs after the first two years will be $50,000.

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4. Establish Ongoing Support Structures.

Nothing can hinder the success of an incentive plan faster than a lack of the necessary financial or administrative resources to carry the plan through. There are ongoing costs associated with implementing and administering pay-for-performance plans, including increased costs for human resources, administrative work, and the professional development necessary to succeed in being held accountable for results. "The support process and structure are probably more important to success than the specifics of the [incentive] formula," found Robert Heneman of Ohio State University in a 1999 paper reviewing performance-based compensation plans in the private sector.

Initial efforts to implement pay-for-performance in Kentucky floundered because a previous plan failed to deliver on the promised financial rewards. Past merit pay plans were discredited when rewards and other promised changes never materialized.

Business leaders can assist school leaders by helping them plan for increased costs and administrative responsibilities. As part of this effort, business leaders should share information about their own investments, both financial and administrative, when implementing pay-for-performance programs. Business leaders can also advise school leaders on the possible use of consultants to help implement the new system.

CNA: Developing and Expanding a Successful Program

Starting in 1994 with 500 of its top officials, the CNA pay-for-performance program now serves over 6,000 employees and includes a flexible mix of 20 different plans based on individual performance and the success of individual strategic business units. To reflect differing goals and needs, performance measures are developed for each individual and business unit. Levels of achievement cover a 200 percent range of performance to capture different degrees of accomplishment. Measures of success include both individual and "customer/shared goals" such as expense reduction and customer satisfaction. And rewards range from a low of 3 percent to a high of 40 percent of salary, averaging between 10 and 15 percent for most exempt-level employees. Methods to ensure the long-term success of the program include (1) a focus on specific, measurable indicators of performance, (2) use of an automated computer program that is integrated with the payroll system, (3) regular communication with plan participants, (4) allocation of necessary administrative support to implement the annual bonuses, and (5) regular employee surveys and focus group sessions to ensure continuous improvement.

MOTOROLA: Developing a "Recognition" Culture

Pay-for-performance has become a core part of Motorola's effort to create a "recognition culture" throughout the corporation. Merit pay increases, promotions, stock options, and incentive pay plans are among a variety of pay-for-performance tools used at Motorola, along with various performance recognition programs. At Motorola, no salary increases are given for seniority or longevity in a particular job. Instead, managers at Motorola have a variety of ways to reward performance. Rewards make up an increasing portion of an employee's compensation at higher salary levels, starting out at roughly 5 percent and reaching as much as 50 percent. In addition, they can award one-time lump sum cash awards for work above the normal call of duty in areas such as numerous published articles or a high number of patents received. Occasionally, team-based rewards are given in addition to individual bonuses.

5. Align Compensation with Organizational Goals.

In order to be effective, pay-for-performance plans must be aligned with the school's overall goals. Business experience and research show that effective pay-for-performance plans are part of a larger set of reforms rather than an isolated approach to improving productivity or rewarding certain teachers. Developed in isolation, even the most well-considered plans can fail to result in the desired improvements. Even worse, pay-for-performance plans that are not carefully tailored to fit within other reforms can lead to frustrating and divisive conflicts.

Business leaders should emphasize the importance of aligning pay-for-performance plans with overall school goals. Business leaders should encourage school leaders to consider pay-for-performance in conjunction with comprehensive reforms of teacher compensation as well as other organizational changes.

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Conclusion/Recommendations

There are many potential benefits that can result from implementing pay-for-performance salary structures along with other compensation reforms. All too often, the traditional single salary schedule encourages teachers to chase graduate credits that are unrelated to student achievement rather than rewarding them for the most important outcome — increased student learning. In as many ways as possible, teacher compensation should encourage increased skills and responsibilities and reward improved student achievement.

Clearly, pay-for-performance works best when it is aligned with other organizational changes and standards-based reform measures. Pay-for-performance cannot address the whole range of teacher compensation issues; much less can we expect it to solve the variety of teacher quality challenges our nation currently faces. A successful reform effort should also include a comprehensive plan to improve teacher preparation, provide ongoing professional development, and streamline teacher evaluation and removal procedures. To be effective, pay-for-performance must be married with other changes in the culture and organization of schools.

Most importantly, pay-for-performance relies on acceptable indicators of student growth. In order to implement pay-for-performance successfully, we must employ reliable indicators of student achievement. In many states and communities, much work needs to be done to develop these indicators.

Pay-for-performance remains controversial and is followed closely by the press. Business leaders can make a valuable contribution to the conversation, both at the state level and locally, by offering technical assistance and ongoing consultation to interested school systems. In particular business leaders can help:

1. **Ensure pay-for-performance plans are developed in conjunction with, rather than for, teachers.**
2. **Emphasize the importance of using multiple, credible and objective measures of teacher skills and student progress.**
3. **Encourage school leaders to establish a clear system of rewards that are at least five to ten percent of base salary, delivered within one year, and recognized as additional pay, not pay taken from some teachers and given to others.**
4. **Help school leaders plan for increased costs and administrative responsibilities.**
5. **Advise school leaders on the possible use of consultants to help implement the new system.**
6. **Point out the importance of aligning pay-for-performance plans with overall school goals.**
7. **Encourage school leaders to consider pay-for-performance in conjunction with comprehensive reforms of teacher compensation as well as other organizational changes to improve teaching.**

Compensation systems send signals to employees about what an organization values. The current system signals that longevity and graduate credits are what schools value. Clearly, there is great need for a new, much more flexible compensation system for teachers. And, where credible indicators of student progress are available, pay-for-performance can contribute to this new system by rewarding teachers for student results.

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